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Internal audit and oversight

Activity report for 2016 of the Internal Audit and Investigations Group of the United Nations Office for Project Services

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services hereby submits to the Executive Board this activity report on internal audit and investigation services for the year ended 31 December 2016. The response of UNOPS management to this report is presented separately, as per Executive Board decision 2006/13.

Elements of a decision

The Executive Board may wish to:

(a) *take note* of the annual report of the Internal Audit and Investigations Group for 2016 and the management response thereto;
(b) *take note* of the progress made in implementation of audit recommendations, including those that are more than 18 months old;
(c) *take note* of the opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the organization's framework of governance, risk management and control (in line with Executive Board decision 2015/13); and
(d) *take note* of the annual report of the Audit Advisory Committee for 2016 (in line with Executive Board decision 2008/37).

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Contents

Chapter		*Page*
I.	Executive summary	3
II.	Introduction	4
III.	Role and functions of the Internal Audit and Investigations Group	4
IV.	Approved annual internal audit work plan for 2016	5
V.	Highlights of 2016 audit activities	6
VI.	UNOPS accountability framework	12
VII.	Disclosure of internal audit reports	12
VIII.	Advisory services	13
IX.	Investigations	13
X.	Summary of follow-up of internal audit recommendations	19
XI.	Operational issues	21
XII.	Audit Advisory Committee	23

Annexes (*available on the Executive Board website*)

1. Unresolved audit recommendations issued more than 18 months before 31 December 2016

2. Titles of all internal audit reports issued during the year 2016

3. Audit Advisory Committee – annual report 2016

4. Reports issued by the Internal Audit and Investigations Group in 2016 that resulted in findings of misconduct

5. Criteria supporting IAIG's audit opinion

6. Key areas for improvement identified in audit reports

I. Executive summary

1. **Improvements to the UNOPS internal control system.** Improvements included refining the global organizational structure; implementing OneUNOPS, an advanced enterprise resources planning platform; supporting the (now live) governance, risk management and compliance framework; developing advanced monitoring dashboards; improving centralized project risk management; and continuing to implement audit recommendations.

2. **The Internal Audit and Investigations Group (IAIG) role in UNOPS strategy.** IAIG is the third line of defence in UNOPS governance, risk management and compliance framework, providing independent assurance of how the organization managements its activities. IAIG also investigates fraud and misconduct, and provides independent advice to management.

3. **Strategic engagements.** IAIG conducted two strategic engagements in 2016, including a review of UNOPS capabilities for protection against cybercrimes and a review of risks, anti-fraud capabilities and segregation of duties in the enterprise resources planning system, OneUNOPS.

4. **Audit opinion.** In the opinion of IAIG, based on the scope of audit and investigations work undertaken, the adequacy and effectiveness of UNOPS governance, risk management and control were partially satisfactory, which means that they were generally established and functioning but needed improvement.

5. **Output.** In 2016, six auditors delivered 10 internal audit reports (two more than the eight planned) and 27 project audit reports (five more than in 2015). All internal audit reports were issued within 90 days of planning commencement. Audits identified a total of $59,778 of lost or missing assets. The investigations team handled 104 complaints, from which 59 cases were opened (IAIG highest caseload since inception). All cases were closed within 12 months of opening. IAIG also substantiated $349,282 in fraud and referred 35 vendors for sanctioning. In addition, a total of 505 personnel were trained in 19 anti-fraud awareness workshops around the world.

6. **Benchmarking.** In a recent report (JIU/REP/2016/8), the United Nations Joint Inspection Unit identified IAIG as one of the most efficient, productive and cost effective audit units in the United Nations system. IAIG delivers the most outputs per head, at one of the lowest costs per output, despite receiving one of the lowest management budgets as a percentage of total UNOPS budget. In 2016, through utilization of increased cost efficiencies, IAIG added a peace and security audit position that will deliver four internal audit reports in 2017.

7. **Innovation.** In 2016, IAIG integrated data analytics and continuous auditing techniques into day-to-day activities. This involved creating and monitoring audit dashboards that identify red flags and generating new periodic reports to management. IAIG hired a data analytics specialist to work with internal audit teams to help guide and shape the continuous auditing strategy of UNOPS. In addition, IAIG contributes to a range of UNOPS-wide objectives.

8. **Teamwork.** IAIG maintains a dynamic cadre of internal audit and investigative professionals that was strengthened in 2016 with the addition of professionals on retainer contracts in the fields of forensic engineers, data analytics, computer forensics, and information and communications technology counter-hacking.

9. **Collaboration with partners**. IAIG continues to strengthen its relationships with oversight partners in the United Nations system, public and private sectors. UNOPS became the first United Nations organization to establish an anti-fraud cooperation memorandum of understanding with the

Australian Department of Foreign Affairs and Trade and the United States Special Inspector General for Afghanistan Reconstruction.

II. Introduction

10. The Internal Audit and Investigations Group is pleased to provide the Executive Board with the annual report on UNOPS internal audit and investigation activities for the year ended 31 December 2016.

11. This report provides the group's opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the governance, risk management and control processes of UNOPS (Executive Board decision 2015/13).

12. The IAIG Director reports to the Executive Director of UNOPS, supporting her accountability function. IAIG provides assurance, offers advice, recommends improvements and enhances the risk management, control and governance systems of the organization. IAIG also promotes accountability by conducting investigations into reports of violations of applicable rules, regulations and administrative or policy directives.

13. IAIG continued to interact with the UNOPS Audit Advisory Committee in 2016. In accordance with Executive Board decision 2008/37, the annual report of the Audit Advisory Committee for 2016 is attached as annex 3 to this report.

III. Role and functions of the Internal Audit and Investigations Group

14. The mandate, functions and standards for internal audit and investigations within UNOPS is approved by the Executive Director as organizational directive 3, revised and effective 1 January 2012. Per regulations 6.01, IAIG:

> shall conduct independent, objective assurance and advisory activities in conformity with the International Standards for the Professional Practice of Internal Auditing. It shall evaluate and contribute to the improvement of governance, risk management and control processes, and report thereon.

15. The international internal auditing standards require that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfil its responsibilities and must confirm to the Executive Board, at least annually, the organizational independence of the internal audit activity. IAIG hereby confirms its organizational independence. In 2016, IAIG was free from interference in determining its audit scope, performing its work and communicating its results.

16. Per regulation 6.02, in addition to providing internal audit services to UNOPS, IAIG is "responsible for assessing and investigating allegations of fraud and corruption committed by UNOPS personnel or committed by others to the detriment of UNOPS".

17. The mandate, scope, responsibility, accountability and standards of IAIG are further defined in the following: the Internal Audit Charter approved by the Executive Director and issued as organizational directive 25, revised and effective 2 March 2015; organizational directive 15 (Addendum 4), "UNOPS Global Structure"; and organizational directive 36, "UNOPS Legal Framework for Addressing Non-Compliance with United Nations Standards of Conduct".

18. Further, under the UNOPS governance, risk management and compliance framework, IAIG assumes the role as third line of defence.

IV. Approved annual internal audit work plan for 2016

19. The primary aim of the 2016 work plan was to evaluate and improve the effectiveness of risk management, control and governance processes, and to provide the Executive Director with the assurance that internal controls and procedures are functioning as intended.

A. Risk-based internal audit plan

20. In preparing its 2016 work plan, IAIG has continued to ensure consistency between internal audit priorities and the goals of UNOPS management. IAIG gathered data from a variety of internal sources and consulted existing components of the risk management system mandated in UNOPS financial regulation 4.01 and financial rules 104.01 and 104.02 to perform this assessment. UNOPS also supported the enterprise risk management programme to improve organization-wide risk identification and mitigation techniques.

21. The 2016 audit work plan, based on the audit risk assessment, acknowledged the geographical diversity of UNOPS operations worldwide and included both internal field office audits and performance audits.

B. Progress on implementation of annual work plan

22. In 2016, six auditors delivered 10 internal audit reports (two more than the eight initially planned) and 27 project audit reports (five more than in 2015). All internal audit reports were issued within 90 days of planning commencement. All of the internal audits planned for 2016 were completed and final reports issued during the year (see table 1). In addition, the Haiti Operational Centre internal audit report was issued, carried forward from 2015. In addition, IAIG issued the report, "Engagement of United Nations pensioners and retirees at UNOPS", which was not included in the initial work plan.

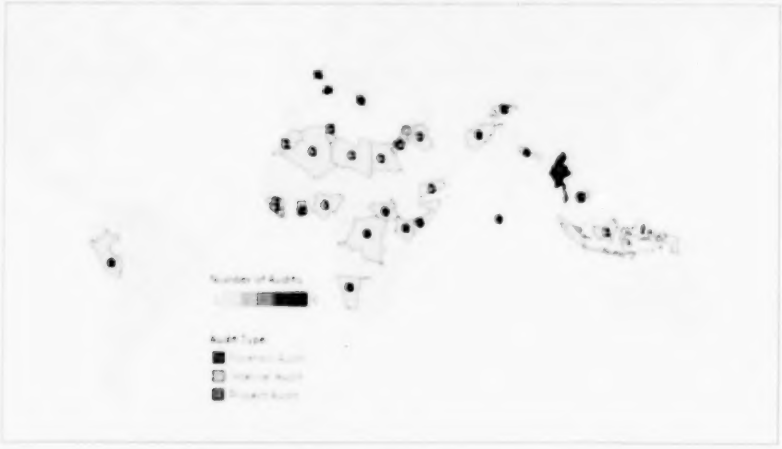
Table 1. Status of implementation of the work plan as at 31 December 2016

	IAIG internal audits	Project audits	Total
Number of audits planned in 2016	8	0[1]	8
Total audit reports issued	10	27	37
Total audits carried over to 2017	0	0	0

23. Figure 1 below shows the 2016 audit coverage by geographic distribution.

[1] Nil as requests for project audits are client-driven.

Figure 1. Geographic distribution of audits in 2016



V. Highlights of 2016 audit activities

24. As noted in table 1, IAIG issued 37 reports during 2016, compared with 29 in 2015 and 22 in 2014. The number of reports is greatly influenced by client requests and reporting requirements, as per project agreements.

25. IAIG audits are delivered in two categories:

(a) Internal audits and reviews directly performed by IAIG (10 reports); and

(b) Project audits conducted under the supervision of IAIG by external auditing firms to fulfil project reporting requirements (27 reports).

26. The 37 audit reports issued in 2016 contained 267 audit recommendations. Of these, 207 pertain to internal audit reports (table 3) and 60 to project audits (table 6). IAIG auditors also identified $59,778 of lost or missing assets.

A. Internal audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

27. During 2016, 10 internal audit reports were issued by IAIG and submitted to the UNOPS Executive Director, as detailed in table 2.

28. IAIG participated as a joint audit team member for the interagency audit of the governance function of the South Sudan Common Humanitarian Fund. This audit, led by the UNDP Office of Audit and Investigation, commenced in 2015 and was concluded in 2016.

Table 2. List of internal audit reports issued by the Internal Audit and Investigations Group in 2016

Report title	Rating[2]
Internal audit of the Myanmar Operational Hub	Satisfactory
Internal audit of the Amman Operational Hub	Satisfactory
Internal audit of the Ghana Operational Hub	Partially satisfactory

[2] A "satisfactory" rating means "internal controls, governance and risk management processes were adequately established and functioning well". A "partially satisfactory" rating means "internal controls, governance and risk management processes were generally established and functioning, but needed improvement".

Report title	Rating[2]
Internal audit of the Haiti Operations Centre	Partially satisfactory
Internal audit of the Geneva Office	Satisfactory
Internal audit of the Tunisia Project Centre	Satisfactory
Internal audit of the Peru Operations Centre	Satisfactory
Review of the UNOPS treasury management function	Not applicable[3]
Enterprise resource planning OneUNOPS fraud risk assessment	Not applicable
Review of engagement of United Nations pensioners and retirees at UNOPS	Not applicable

Analysis of internal audit recommendations issued in 2016

29. The number of internal audit recommendations issued increased from 101 in 2015 to 207 in 2016, and the average number of recommendations per audit report increased from 14 in 2015 to 21 in 2016. IAIG continued its commitment to the advice of the Audit and Advisory Committee to focus on the more significant risks and systemic issues. Nonetheless, the number of internal audit recommendations issued increased significantly in 2016, due to the completion of a risk assessment of the UNOPS enterprise risk planning system referred to as OneUNOPS, which went live on 1 January 2016. This comprehensive risk assessment included 62 individual risks and recommendations.

30. During the year, 43 recommendations were raised as a result of investigations. Sixteen of these recommendations were closed during the year.

Level of importance of audit recommendations related to IAIG audits

31. Of the 207 recommendations issued, 95 were considered to be high importance[4] and 112 of medium importance, as shown in table 3. Low priority recommendations are addressed during the field work stage of the audit.

Table 3. Categorization of audit recommendations, by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2014	2015	2016	2014	2015	2016
High	37	44	95	45	44	46
Medium	45	57	112	55	56	54
Total	**82**	**101**	**207**	**100**	**100**	**100**

Frequency of occurrence of audit recommendations by functional area

32. The frequency of audit recommendations by functional area is displayed in figure 2. Most recommendations pertained to finance (30 per cent), procurement (18 per cent) and human resources (16 per cent), followed by project management (14 per cent), information technology (12 per cent), general administration (4 per cent), partnerships (3 per cent), security (2 per cent) and legal (1 per cent). This distribution by functional area was driven by the audit scope as identified in the risk assessment for each engagement.

[3] This was a consultancy service and, in line with IAIG standard procedures, no overall rating was provided.

[4] Level of importance:

High: action considered imperative to ensure that UNOPS is not exposed to high risks.

Medium: action considered necessary to avoid exposure to significant risks.

Low: action considered desirable and should result in enhanced control or better value for money.

Figure 2. Internal audit recommendations by functional area[a]

Key areas of improvement identified in 2016 internal audit reports

33. Supplementing figure 2, figure 3 shows the number of recommendations by objective type.[b] Recommendations on operational issues (48 per cent) were the most common, followed by those addressing compliance issues (23 per cent), strategic issues (22 per cent) and reporting issues (7 per cent). Key areas for improvement can be found in annex 6 of this report.

Figure 3. Recommendations issued in 2016 by objective

B. Projects audits

Single audit principle

34. IAIG upholds the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

35. IAIG provides technical support to project managers in meeting their projects' audit requirements. For that purpose, IAIG engages pre-qualified third-party professional auditing firms to conduct these audits. The firms adhere to

[a] The "other" category includes security and contract and property review.

[b] As per entity objectives in "Internal Control Integrated Framework" (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

terms of references approved by IAIG and the audit reports they prepare undergo IAIG quality assurance before they are issued.

36. Of 27 project audit reports issued in 2016, 26 were provided by one firm with whom IAIG has a long-term agreement. This arrangement provides cost efficiencies, consistency in reporting, improved timelines and a simplified process for conducting project audits.

Internal audit reports issued for projects

37. During the year ended 31 December 2016, 27 audit reports relating to specific projects were issued by IAIG and submitted to the UNOPS Executive Director or Regional Director, depending on the project requirements.

38. As shown in table 4, 12 of the 27 audit reports for projects issued in 2016 provided both an audit opinion on the financial statement of the project and a rating of the internal control environment. This was done in accordance with the requirements of the partner and primary stakeholder(s) concerned.

Table 4. Number of project audit reports issued, 2014-2016

	2014	2015	2016
Audit reports issued expressing an opinion on the financial statement and providing a rating of the internal control environment	11	20	12
Audit reports issued expressing an opinion on the financial statement only	3	2	11
Audit reports issued expressing an opinion on the internal control environment only	0	0	2
Forensic audits	0	0	2
Total	**14**	**22**	**27**

39. As shown in table 5 below, the proportion of project audits with an unqualified opinion has remained steady at 100 per cent from 2014 to 2016 and reflects the continued quality of financial reports produced by UNOPS.

40. The proportion of project audits with a "satisfactory" internal control rating decreased to 71 per cent (2015: 75 per cent). This is still above the 55 per cent level from 2014. There were no project audits with an "unsatisfactory" rating for internal controls, continuing the positive trend from 2014.

Table 5. Summary of project audit opinions and ratings of internal controls for project audits, 2014-2016

Type of opinion or rating	Number of audit reports			Percentage of total		
	2014	2015	2016	2014	2015	2016
Audit opinion on financial statement of project (where required)						
Unqualified opinion	14	22	25	100	100	100
Qualified opinion	0	0	0	0	0	0
Total	**14**	**22**	**25**[1]	**100**	**100**	**100**
Rating of overall level of internal control (where given)						
Satisfactory	6	15	10	55	75	71
Partially satisfactory	5	5	4	45	25	29
Unsatisfactory	0	0	0	0	0	0
Total	**11**	**20**	**14**	**100**	**100**	**100**

[1] 25 reports had financial statement opinions. Residual four were forensics(2) and internal control audits (2).

Financial impact of project audit findings in 2016

41. The Executive Board, in its decision 2010/22, requested that information on the financial impact of audit findings be incorporated in future reports. For 2015 and 2016, the cumulative financial impact of project audit reports with a qualified opinion was nil. For internal control reports, the financial impact on audit observations was $52,973.

Project audit recommendations issued in 2016

42. The 27 project audit reports issued generated 60 audit recommendations, an average of 2.2 recommendations per report. This average has remained consistently within the range of 2.0-2.7 for the past three years.

43. These 60 recommendations are analysed below by importance and frequency of occurrence in a functional area.

Level of importance of audit recommendations related to project audits

44. As seen in table 6, the proportion of audit recommendations rated as being of high importance rose in 2016 to 27 per cent.

Table 6. Categorization of project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2014	2015	2016	2014	2015	2016
High	3	0	16	11	0	27
Medium	21	57	44	75	100	73
Low	4	0	0	14	0	0
Total	**28**	**57**	**60**	**100**	**100**	**100**

Frequency of occurrence of project audit recommendations by functional area

45. The frequency of audit recommendations by functional area, displayed in figure 4, shows that in 2016 most recommendations pertained to project management (38 per cent), finance (33 per cent) and procurement (20 per cent). These areas were considered high-risk, for which audit focus was directed in 2016. See annex 6 for key areas for improvement.

Figure 4. Project audit recommendations by functional area

C. Improvements to the UNOPS internal control system

66. During the year, UNOPS management and IAIG worked together to ensure the implementation of internal audit recommendations and to incorporate these results into performance data for various UNOPS departments. By using these performance data, management was able to rapidly resolve issues and areas of risk identified, thereby safeguarding the effectiveness of the UNOPS internal control framework. The result of these efforts is evidenced by the overall implementation rate of 93 per cent of internal audit recommendations issued from 2008 to 2016, with only two outstanding recommendations, which are more than 18 months old.

67. UNOPS refined its global organizational structure. Its global portfolio of projects was organized under five geographical regions managing several country and multi-country offices. All global projects are embedded within one structure, which enables management oversight, coordination and integration of in-country operations. The Risk and Quality Group was formally established as a distinct business unit within the structure.

68. UNOPS is committed to organizational excellence, accountability and transparency, and continuously seeks to improve its internal governance and operations. UNOPS also maintained the ISO 9001, ISO 14001 and OHSAS 18001 certifications, as part of its commitment to excellence and the implementation of best practice. Quid, UNOPS provides an advanced platform for customizing operational tools and guidance for personnel, and management information to ensure speed and compliance.

69. Next year, UNOPS will embark on its governance, risk management and compliance framework, a process of simplifying its internal policy instruments and enhancing their alignment with business processes. The objective is to further empower personnel to perform their functions efficiently, confident that they are in compliance with UNOPS policy.

70. Based on the recommendation of the United Nations Development Group High-level Committee on Management, the 'three lines of defence' model will frame the governance, risk management and compliance framework initiative. It will include enhancements to the structure and communication of the internal policy framework, the business processes and tools through which policies are deployed and operations performed, and the internal performance indicators and management dashboards.

71. Advanced dashboards will improve internal transparency, managerial oversight and assurance that UNOPS operations are performed efficiently and in compliance with policy. They will also identify where improvements of policy, tools, competencies or resourcing are needed. UNOPS will also further develop its balanced scorecard and performance dashboards to facilitate transparency, management oversight and accountability at various levels.

72. UNOPS is rolling out a new process for assessing and managing project risks. As part of this, the Risk and Quality Group engaged the audit firm Deloitte to conduct a fraud risk assessment. The process will ensure an earlier, more systematic assessment of a broad range of risk categories associated with new projects, improved efficiency and effectiveness of the UNOPS recurrent project assurance, and a comprehensive risk assessment of the UNOPS portfolio of ongoing projects. This will ensure, inter alia, that project records provide reliable information for real-time knowledge-sharing and strategic assessment and assurance of ongoing activities.

D. Audit opinion

53. Management is responsible for maintaining the adequacy and effectiveness of UNOPS governance, risk management and control. IAIG has the responsibility to independently assess the adequacy and effectiveness of the framework.

54. The audit opinion is based on the audit reports issued by IAIG between 1 January and 31 December 2016 in conformance with the International Standards for the Professional Practice of Internal Auditing. The audit reports pertained to the following:

(a) audits of field offices;

(b) audits of cross-functional themes;

(c) audits of projects; and

(d) the implementation status of audit recommendations as at the end of the calendar year.

55. The majority of the audit reports issued in 2016 covered the 2015 and 2016 activities of UNOPS. A concise summary of the audit work that supports the opinion is included in parts A and B of this section of this report, above.

56. In the opinion of IAIG, based on the scope of audit and investigations work undertaken, the adequacy and effectiveness of UNOPS governance, risk management and control were partially satisfactory, which means that they were generally established and functioning but needed improvement. The implementation ratio of audit recommendations as per 31 December 2016 is 93 per cent, which implies that appropriate and timely action is taken, as and when improvements in governance, risk management and control are necessary. See annex 5 of this report for the audit opinion rationale.

VI. UNOPS accountability framework

57. In accordance with the UNOPS accountability framework and oversight policies, the IAIG Director reports to the Executive Board on the resources available and required for the implementation of the accountability framework.

58. The pillars of the UNOPS accountability framework and oversight policies that are internal to the organization include IAIG, the Audit and Advisory Committee, the Ethics Officer, the Office of the General Counsel, the Risk and Quality Group, the Appointment and Selections Panel, the Appointment and Selections Board, the Headquarters Contracts and Property Committee, the balanced scorecard system and the implementation of UNOPS organizational directives and administrative instructions.

59. The fundamental pillars of the UNOPS accountability framework and oversight policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, the Joint Inspection Unit, the Advisory Committee on Administrative and Budgetary Questions, and the Fifth Committee of the General Assembly.

VII. Disclosure of internal audit reports

60. IAIG complies with Executive Board decisions 2008/37 and 2012/18 and the procedures approved therein regarding disclosure of internal audit reports. IAIG experience with the public disclosure of audit reports continues to be positive, leading to enhanced transparency, accountability, timely action and quality assurance.

61. Accordingly, IAIG has published, on the UNOPS public website, executive summaries of internal audit reports issued after 30 June 2012 and the complete

internal audit reports issued after 1 December 2012. Furthermore, since November 2011 all functional and thematic audit reports, as well as the list of all audit reports issued since 2008, have been posted on the UNOPS public website, except when withheld for confidentiality reasons, by exception.

VIII. Advisory services

62. At the request of management, IAIG provides internal advisory services that cover a variety of issues relating to UNOPS internal controls, policies and organizational directives, business processes, proposed project agreements and other specific concerns. In accordance with Institute of Internal Auditors standards, IAIG acts only in an advisory capacity and does not participate in the implementation of any procedure.

63. During 2016, IAIG provided advisory services that included: developing continuous auditing and data analytics techniques, which resulted in the provision of periodic reports to management; advising management on the governance, risk management and compliance framework; advising on the implementation of the new enterprise resource planning system and continuous monitoring tests to be included in the configuration; reviewing audit clauses in new project agreements; and advising management on the creation of a treasury function within UNOPS by conducting a comprehensive review of the function. IAIG also participated in the UNOPS Information and Communications Technology Interim Operations Group (ICT-IOG) as an observer. IAIG also continued to conduct internal compliance evaluations, required to maintain UNOPS ISO 9001, ISO 14001 and OHSAS 18001 certifications.

IX. Investigations

64. IAIG is the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct.

65. In 2016, IAIG received several cases involving allegations of fraud and collusion by UNOPS vendors. As a result, IAIG referred 35 vendors to the Vendor Review Committee, which is a significant increase from the five vendors referred in 2015. IAIG investigations also identified a total financial loss of $349,282, which is 0.03 per cent of total organizational delivery. Additionally, IAIG reduced the processing time of its cases, with only six cases that had been open for more than six months at the end of 2016, compared to 28 cases open for more than six months at the end of 2015.

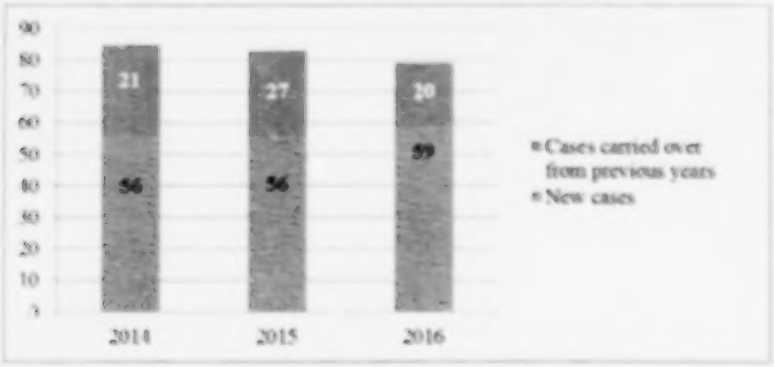
A. Complaint intake

66. In 2016, IAIG received 104 complaints. IAIG opened 59 cases based on these complaints. The remainder (45) were found to be outside of the IAIG mandate or could be more appropriately handled by a different unit. While IAIG received fewer complaints than in 2015 (104, down from 120 complaints), it opened slightly more cases (59, up from 56).

Cases opened

67. In addition to the 59 cases opened in 2016, a further 20 cases were carried over into 2016 (figure 5).

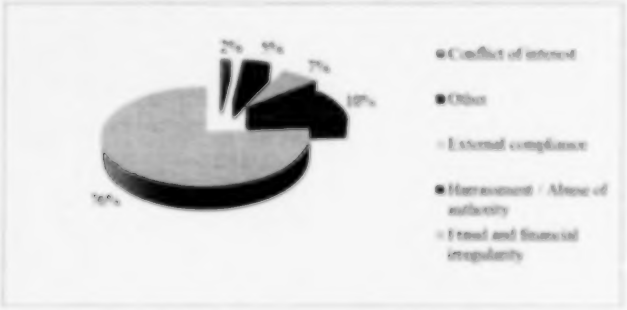
Figure 5. Number of cases opened, 2014-2016



68. Management or personnel members referred 42 per cent of the cases opened in 2016; 44 per cent came through other means (external organizations such as the medical insurance provider); 3 per cent came through the UNOPS fraud or harassment hotlines, while the remaining 10 per cent originated out of an IAIG audit or investigation.

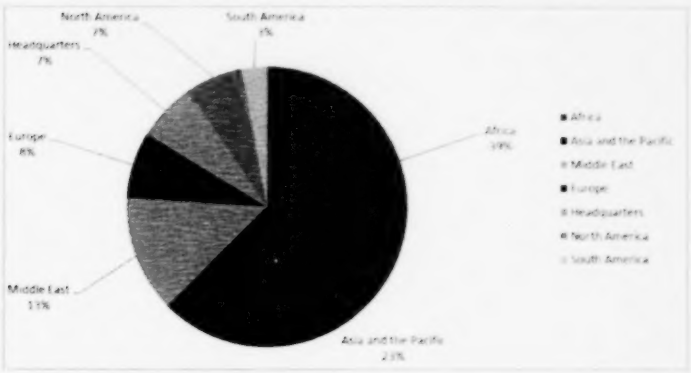
69. The majority of cases opened in 2016 (45 cases or 76 per cent) involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft, embezzlement or misuse of UNOPS resources). The remainder involved other types of misconduct: harassment and/or abuse of authority cases (six cases or 10 per cent); external compliance (medical insurance fraud and violation of local laws) (four cases or 7 per cent); conflicts of interest (one case or 2 per cent); and others types, such as misuse of UNOPS assets (three cases or 5 per cent).

Figure 6. Types of cases opened in 2016



70. Africa is the region from which IAIG received the most complaints in 2016 (41 complaints or 39 per cent), followed by Asia and the Pacific (24 complaints or 23 per cent), the Middle East (14 complaints or 13 per cent) and Europe (eight complaints or 8 per cent). IAIG also received seven complaints from headquarters, seven from North America and three from South America.

Figure 7. Geographic distribution of complaints in 2016



B. Outcome of investigations

71. When a complaint is received, IAIG conducts an initial review to determine whether the allegations fall within its mandate and jurisdiction. If it does, IAIG then conducts either a preliminary assessment or an investigation, depending on several factors, such as the sufficiency of the evidence or seriousness of allegations.

72. If the allegations against a UNOPS personnel member are substantiated, IAIG refers the case to the Human Resources Legal Officer for disciplinary action in accordance with organizational directive 36. If the case involves a UNOPS vendor, the matter is referred to the Vendor Review Committee pursuant to organizational directive 41. Retaliation cases are referred to the Ethics Officer under organizational directive 35.

73. In 2016, IAIG closed 56 cases, reducing its caseload from 79 to 23 cases (a reduction of 71 per cent). Table 7 shows the number of cases opened and closed in 2016.

74. IAIG investigated and completed its cases more quickly in 2016, due in part to the increased size of the team as well as continued emphasis on triaging, which allowed IAIG to focus on the most serious cases. As of 31 December 2016, IAIG had only six cases that had been open for more than six months and no case older than 12 months. In comparison, on 31 December 2015, IAIG had 28 cases that had been open for more than six months, including one older than 12 months.

Table 7. Investigation caseload in 2016

	Number of cases	Per cent
Caseload in 2016		
• *Cases carried over from previous years*	20	25
• *Cases received in 2016*	59	75
Total	**79**	**100**
Cases closed in 2016	**56**	**71**
Cases carried over to 2017	**23**	**29**

75. Twenty-nine cases of the 56 cases closed in 2016 (55 per cent) were substantiated. In 23 cases (41 per cent), IAIG concluded that the allegations were not substantiated. Additionally, the allegations in five cases were outside of the UNOPS mandate. IAIG thus referred three cases to national authorities and two to other United Nations organizations.

Substantiated cases

76. The 28 substantiated cases involved 23 personnel members and 35 vendors.[8] IAIG referred personnel members in 20 cases to the Human Resources Legal Officer for disciplinary action.[9] IAIG also referred vendors in 13 cases to the Vendor Sanctions Committee. Three of these cases involved both personnel and vendors and were thus sent to both departments for further action. The majority of the cases where misconduct was found involved fraud or financial irregularities (21 cases).

Table 8. Outcome of investigation cases in 2016

Action taken	Count
A. Cases not substantiated	
• *After initial review or preliminary assessment*	16
• *After investigation*	7
Subtotal	23
B. Cases outside UNOPS mandate	5
C. Cases substantiated	28
Total	56

Financial losses and recovery thereof

77. The total financial loss that was substantiated in investigation reports from IAIG in 2016 amounted to $349,282 ($344,586 in fraud, $4,000 in bribery and $696 in medical fraud – see annex 4). This amount was less than 0.1 per cent of UNOPS total annual resources. The majority identified was client funds ($266,838) while the rest ($82,444) constituted UNOPS funds. These matters were referred to management for recovery.

Management letters

78. In 2016, IAIG issued 10 management letters to relevant business units to addresses weaknesses in internal controls, as identified by investigators. This was a slight increase from 2015 when IAIG had issued nine management letters. They covered a wide range of topics. For example, IAIG received several complaints that unknown external parties posing as UNOPS personnel were charging vendors for procurement awards. IAIG therefore recommended that UNOPS review its information technology security policies to prevent the "spoofing" of UNOPS email accounts.

Action taken in cases of misconduct (2016)

79. IAIG issued 31 reports in 2016 for 29 cases (see annex 4). Some cases have more than one subject, which meant that more than one report may have been issued for a single case.

80. Based on the 20 reports that IAIG sent to the Human Resource Legal Officer concerning 23 personnel members:

(a) four individuals were disciplined. All four had their contract terminated;

(b) three individuals separated from UNOPS before the investigation was completed. A letter was placed in their file indicating that they would have

[8] The same personnel member was subject in two separate cases.

[9] Nineteen of the cases were closed in 2016 while one referral was for a case that had two parts and thus remained open in 2017.

been charged with misconduct had they remained employed with the organization.

(c) the cases for 16 individuals were pending at the end of 2016. Five of the 16 people were still employed by UNOPS as at 15 January 2017. Seven of the 15 had left before the investigation was completed, and four others left after they were referred to the Human Resource Legal Officer.

81. One investigation report was submitted to the Ethics Office, which made its independent determination that the complainant did suffer retaliation and issued appropriate recommendations. That case was one of the 20 cases referred to the Human Resources Legal Officer.

82. In one case, IAIG found misconduct involving an employee of another United Nations organization. UNOPS referred the investigation report to the other organization for appropriate action.

Action taken in cases of misconduct (prior cases)

83. Management also addressed matters against eight individuals whose cases originated prior to 2016. Seven individuals were disciplined (contracts terminated from UNOPS), while one left before the investigation was completed. Hence, UNOPS placed a note in this person's file indicating that s/he would have been charged with misconduct had s/he remained employed with the organization.

Vendor sanctions

84. IAIG referred 13 cases involving 35 vendors and eight principals to the Vendor Review Committee in 2016. The Vendor Review Committee took action in five of the 13 cases. As a result, UNOPS debarred two vendors for five years and permanently debarred two vendors and their principals. The committee also censured three other vendors.[10] The other eight cases remained under review by the committee at the end of 2016.

85. In addition, the Vendor Review Committee took actions against two vendors whose cases originated prior to 2016. One vendor was debarred for one year and another one for five years.

86. In one case where a vendor misappropriated $85,000 of UNOPS funds, IAIG recommended to refer the vendor to the national authorities.

87. To date, UNOPS has sanctioned 53 vendors and company principals based on IAIG findings. More details, including all UNOPS entries to the United Nations ineligibility list, are publicly available on the UNOPS website.[11]

C. Strengthening the investigative capacity

88. In 2016, IAIG had three dedicated professionals who were supported by an investigative assistant. IAIG also recruited an additional person to perform legal quality insurance of investigation reports. IAIG continued to rely upon consultants for additional support, and used the services of a company with which it has a long-term agreement to perform its forensic computer services.

89. In 2016, IAIG successfully closed the majority of the recommendations stemming from the independent peer review it underwent in 2015. The implementation of these recommendations will enhance the effectiveness of IAIG. A number of standard operating procedures were added or updated to augment current practices. As a result, a variety of administrative processes were

[10] The censures do not affect their eligibility to do business with UNOPS or the United Nations, but they would be considered an aggravating factor in any future proceeding. UNOPS organizational directive 41, Framework for determining vendor ineligibility/sanctions, section 8.2.1.

streamlined. The one outstanding recommendation relates to legislative changes that are currently waiting for approval from the governance, risk management and compliance Legislative Framework Committee.

90. One of the outcomes of the recommendations is a standard operating procedure and referral template formalized by IAIG, in consultation with the People and Change Group, regarding how and when the People and Change Group refer cases of harassment and abuse of authority. IAIG also established a formal standard operating procedure for referrals to national authorities and recovering restitution in cases of loss identified during investigation, due to fraud or other misconduct.

91. There were a number of agreements with stakeholders resulting from implementation of peer review recommendations. For example, while the United Nations High Commissioner for Refugees (UNHCR) was to continue to be the primary investigative office for allegations against personnel working operationally for UNHCR, it was agreed that IAIG, the Legal Practice Group, the People Change Group, and the Ethics Office would maintain separate reporting channels for harassment, retaliation and all other types of misconduct. IAIG will remain the main reporting channel for misconduct other than harassment and retaliation, such as fraud and sexual assault.

92. IAIG continues to focus its limited resources on serious cases and refers less serious matters to the appropriate offices; for instance, as noted earlier, IAIG has worked with the People and Change Group on harassment and abuse of authority cases. It has also continued to work closely with senior managers, who may undertake initial reviews of allegations on its behalf.

D. Fraud prevention

Training

93. IAIG recognizes the high-risk environments in which UNOPS operates and is committed to strengthening preventative measures, particularly in the field of fraud. In 2013, UNOPS introduced a standards of conduct workshop for UNOPS personnel. The objectives are to proactively raise the awareness of UNOPS employees on the importance of operating in line with the highest ethical standards, aligning the work UNOPS does with the UNOPS vision, mission and values, as well as training personnel to spot potential issues and know how to report them. IAIG also conducts a session on ethics and integrity in project management at every project management foundation course, which is held quarterly. In 2016, a total of 505 personnel were trained in 19 workshops and trainings around the world.

94. During 2016, IAIG also supported the Global Shared Services Centre in Bangkok to verify all separating personnel members during the exit procedure, ensuring that there are no outstanding issues concerning them.

Integrity, ethics and anti-fraud survey

95. The organization is committed to deterring, detecting and preventing fraud and other misconduct in the performance of its mission and in the conduct of its operations. Therefore, in collaboration with the Ethics Office, IAIG issued its fifth annual confidential survey regarding integrity, ethics and anti-fraud. The survey was issued in three languages: English, French and Spanish. The United Nations Board of Auditors has recognized it as a good practice, and also noted that UNOPS is the only United Nations organization that conducts this type of annual survey.

96. In 2016, 41 per cent of UNOPS-supervised personnel participated in the survey, which is higher than the prior year's response rate of 28 per cent. The

survey provided valuable insight into areas of susceptibility to fraud, employees' concerns and the effectiveness of deterrence programmes and mechanisms for addressing issues. The results of the survey will be incorporated into the planning of future activities, such as training and other preventative measures.

X. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2016 and prior years

97. In line with the international professional practices framework for internal auditing, the IAIG annual workplan included follow-up and monitoring activities to ensure that management actions have been effectively implemented. Since May 2016, IAIG also tracks recommendations resulting from investigations.

98. Table 9 shows the outcome, as of 15 January 2017, for all audit recommendations issued between 2008 and 2016. Of the audit recommendations issued in or prior to 2014, 100 per cent were implemented. The overall implementation rate of audit recommendations at 31 December 2016 was 93 per cent, compared to 2015, which was at 96 per cent. Though slightly lower than 2015, there is still high management responsiveness to implementing the audit recommendations, especially given the increase in the number of recommendations issued in 2016 resulting from the OneUNOPS fraud risk assessment (62 recommendations) and the review of UNOPS treasury functions (21 recommendations).

B. Recommendations unresolved for 18 months or more

99. The number of audit recommendations issued more than 18 months before 31 December 2016 (on or before 30 June 2015) that remained unresolved was two (0.6 per cent of the total 308 outstanding recommendations), as compared with the figure for the end of 2015, when four (2 per cent) of 164 recommendations were outstanding. All recommendations reported as outstanding for more than 18 months in last year's annual report have now been closed. Details are provided in annex 1.

Table 9. Status (as of 15 January 2017) of implementation of audit recommendations issued before 31 December 2016

	2008-2014	2015			2016			Total for 2008-2016
Number of audit recommendations	Total	IAIG audit	Project audit	Total	IAIG audit	Project audit	Total	
Implemented/closed	3,788	59	22	81	34	2	36	3,905
as a percentage	*100*	*58*	*39*	*51*	*16*	*3*	*13*	*93*
Under implementation	0	42	35	77	173	58	231	308
as a percentage	*0*	*42*	*61*	*49*	*84*	*97*	*87*	*7*
Total	3,788	101	57	158	207	60	267	4,213

XI. Operational issues

A. Resources

100. During 2016, the internal audit section consisted of one manager, audit section (P5), two internal auditors (P4 and P3), three audit specialists (I-ICA 2[11]), and one audit assistant (L-ICA 4[12]). The Director of IAIG (D1) provides general direction and support to the section. IAIG is now pleased to confirm the recruitment of an audit specialist for the Peace and Security Cluster based in New York from August 2016 and funded by IAIG.

101. The investigations section is composed of one senior investigator (ICS 12: P5), one investigator (ICS 10: P3), three investigations specialists (two I-ICA 2 and one I-ICA 1) and one investigative assistant (L-ICA 5).

102. The total budget for IAIG in 2017 is $3.0 million ($3.050 million in 2016), with $1.672 million ($1.691 million in 2016) allocated to audit activities and $1.327 million ($1.359 million in 2016) allocated to investigative activities.

103. The IAIG internal structure is supplemented by the engagement of third party professional firms and individual consultants. Further, IAIG continued to retain a part-time editor for quality assurance of internal audit reports.

B. Involvement with professional bodies and other groups

104. IAIG has continued its involvement with the Representatives of Internal Audit Services of the United Nations Organizations (UN-RIAS) and Representatives of the Internal Investigations Services of the United Nations Organizations (UN-RIS), coordinating internal audit and investigative activities among United Nations organizations, both in the quarterly virtual meetings as well as the annual face-to-face meeting, the next one of which is scheduled in September 2017. In 2015, the Director of IAIG was appointed Vice-Chair of UN-RIAS, a position he held until September 2016.

105. IAIG coordinated its work plan with the United Nations Board of Auditors. In 2016, audit recommendations and audit results were continually shared, as well as the final audit reports together with management responses.

106. IAIG has worked closely with the Joint Inspection Unit in order to strengthen internal oversight within UNOPS. IAIG will also participate in the networking group of the Heads of Internal Audit of International Organizations in Europe in April 2017 and will participate in the annual Conference of International Investigators in September 2017.

107. In 2016, UNOPS, and IAIG, became the first United Nations organization to sign an anti-fraud/corruption memorandum of understanding with the Australian Department of Foreign Affairs and Trade, as well as with the United States Special Inspector General for Afghanistan Reconstruction. The memorandum recognizes the strong relationship IAIG has with client audit/investigations units, and enhances the mutual goal of combatting fraud and corruption in the countries in which IAIG operates. It is also an especially strong assurance-building tool for field colleagues who are negotiating for client funds.

108. As mentioned in last year's annual report, IAIG became a law enforcement and government partnership member of the Association of Certified Fraud Examiners (ACFE). IAIG also attended the Annual ACFE conference. UNOPS is the first United Nations organization to have this membership. Association of

[11] I-ICA: International Individual Contractor Agreement
[12] L-ICA: Local International Contractor Agreement

Certified Fraud Examiners membership will increase UNOPS standard of practice and recognition among other United Nations organizations.

109. In 2016, IAIG continued its formal relationship with the Institute of Internal Auditors, to whose international professional practices framework it adheres and of which all IAIG auditors are members. Auditors also met their continuing professional education requirements and maintained their respective audit and accounting designations and memberships.

110. IAIG participated in the 17th Conference of International Investigators and in the third informal meeting of the heads of investigations of United Nations organizations.

C. Strengthening the audit function

111. IAIG undergoes continuous improvement to its professional practices, internal policies and procedures to remain relevant and current.

112. During 2015, IAIG implemented the use of Wrike, an online work planning and resource allocation tool, so that limited audit and investigations resources can be used more efficiently and effectively. This tool has proved vital in IAIG audit planning, tracking of tasks and day-to-day activities. Use of the tool was expanded and refined and has significantly improved productivity and information flow.

113. Throughout 2016, IAIG has undertaken new and continuous improvement initiatives, such as the use of data analytics, auditing for fraud and supporting the governance, risk management and compliance framework initiative.

D. Data analytics

114. During 2016, IAIG started using data analytics to proactively monitor risks and issues, and also to prevent and detect possible fraudulent and anomalous transactions. This addresses requests from the Executive Board and Audit Advisory Committee that IAIG boost proactive audit and investigation efforts.

115. IAIG developed a dashboard for continuous auditing tools and queries to enable ongoing and proactive monitoring of risks. IAIG communicates anomalies identified with management so that corrective action can be taken. In 2016, IAIG issued two quarterly reports on its findings identified through the use of data analytics. Some of the key findings are as follows:

(a) The vendor management process at UNOPS is prone to serious risks and lapse of controls, including: 111 duplicate vendor accounts; duplicate or overpayments amounting to $35,727; and 59 employees with the same bank details as UNOPS suppliers. Management is taking action to address them.

(b) The top 10 overspent projects incurred an estimated overspend of $3.25 million in the third quarter of 2016.

(c) Forty-seven ongoing projects were operating beyond their approved end dates and amendments to project legal documents were required.

116. The IAIG strategy in 2017 is to have a full-time data analytics resource that will be responsible for continuous auditing and fraud detection and prevention. This will enable IAIG to perform faster, cheaper and better audits in an innovative manner.

E. Fraud topics

117. IAIG, together with other United Nations organizations, has identified the need to review how fraud is approached as part of its internal audit assignments. This was echoed by the Representatives of Internal Audit Services of the United Nations Organizations. In 2017, IAIG plans to have a fraud risk focus in each

internal audit engagement. In 2016, a fraud expert was consulted to create specific anti-fraud audit programmes with targeted fraud detection audit procedures, which will cover the focus areas of procurement. The data analytics work above is also directed at fraud detection and prevention.

F. Governance, risk management and compliance framework

118. As discussed above, UNOPS is implementing its governance, risk management and compliance framework. The objective is to increase UNOPS capacity to "reliably achieve our objectives, while addressing uncertainty and acting with integrity" and to support required behavioural changes to better implement UNOPS activities.

119. Some practical changes have already been implemented and, in September 2016, the Executive Director promulgated Executive Office directive 1, revising the UNOPS legislative framework. The Executive Director also created the Legislative Framework Committee, of which IAIG is a part, to coordinate the revision of UNOPS organizational directives and administrative instructions.

120. The framework introduces a "three lines of defence" model that is integral to ensuring that the organizational structure best supports and facilitates compliance. IAIG, as the independent internal assurance provider, is the third line of defence.

121. In 2017, IAIG will support the governance, risk management and compliance framework through four key avenues to:

(a) ensure implementation of recommendations from the fraud risk assessment of OneUNOPS;

(b) improve the embedding of manual processes into OneUNOPS;

(c) build on the implementation of the IAIG continuous reporting tool in OneUNOPS (which enables continuous and proactive monitoring of organizational risks, including fraud risks, and ensures optimum levels of internal control), and act as an incubator for monitoring tests which can be handed off to second line of defence units (for example, the Finance Group and the Headquarters Contracts and Property Committee); and

(d) continue to provide support and insight to the Legislative Framework Committee.

122. Furthermore, IAIG will explore how its risk assessment methodology can be informed by this framework, as it becomes more operational.

G. External quality assessment

123. With a view to improving its internal audit function, IAIG plans on having this function undergo an external quality assessment during 2017. Such a review is required per the Institute of Internal Auditors standards, which require external assessments to be conducted once every five years. The last such external assessment was conducted in September 2012.

124. IAIG will conduct a readiness exercise prior to the external assessment, including updating its current quality assurance and improvement programme.

XII. Audit Advisory Committee

125. During 2016, the Audit Advisory Committee continued to review the annual workplan, budget, regular progress reports and annual report of IAIG, and to provide advice on increasing the effectiveness of the internal audit and investigation functions. The Audit Advisory Committee annual report for 2016 is included in annex 3.